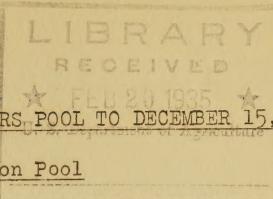


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THE ORIGIN AND OPERATION OF THE 1933 COTTON PRODUCERS' POOL TO DECEMBER 15, 1934

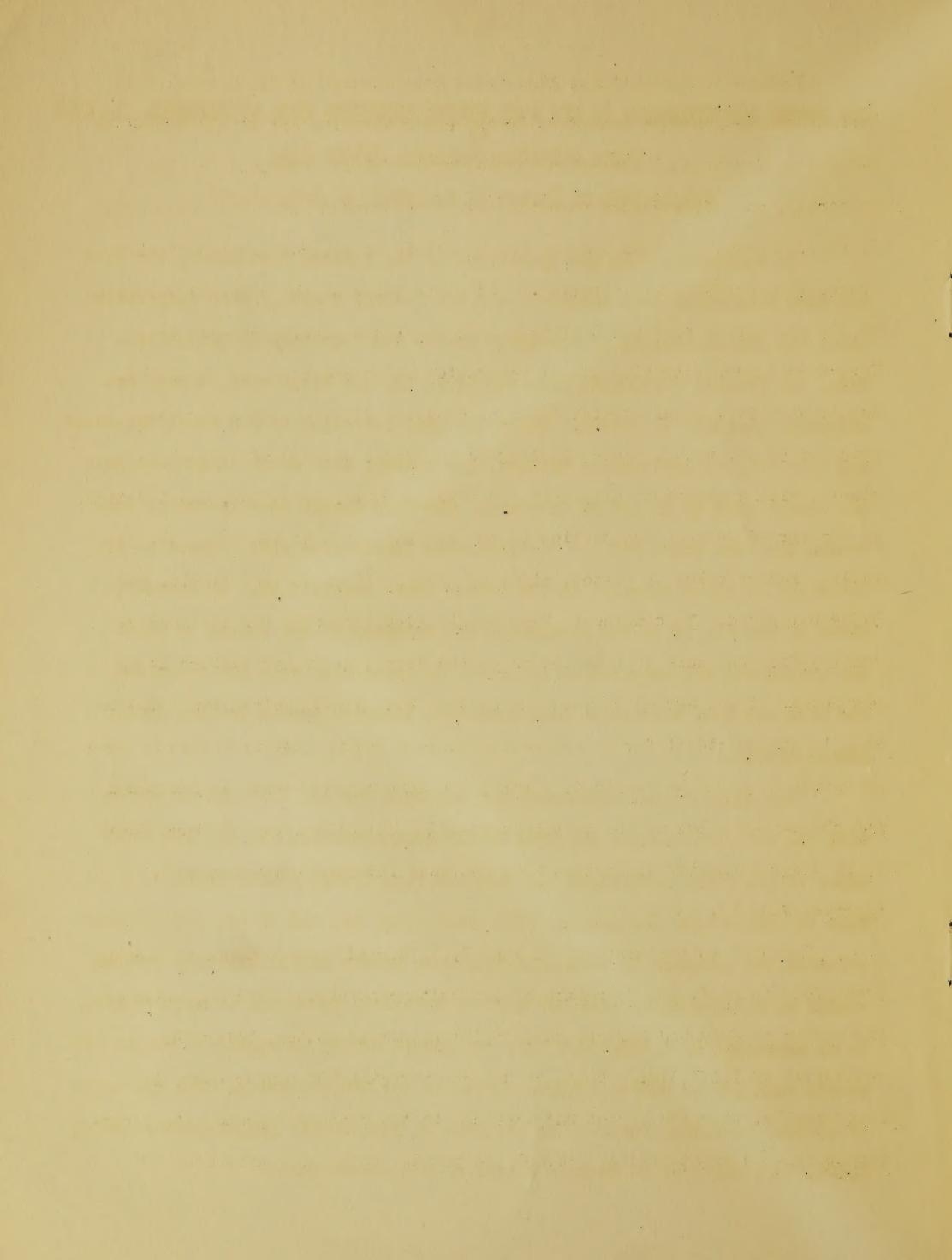
by

Oscar Johnston, Manager, Cotton Pool

Acquisition of Cotton by Secretary of Agriculture

In connection with the operations of the Federal Farm Board, the Seed and Crop Production Loan Agencies, and the Federal Stabilization Corporation under the administration of President Hoover and Secretary of Agriculture Hyde, the Federal Government acquired title to, and liens upon, a very considerable quantity of cotton. Under the administration of President Roosevelt and Secretary of Agriculture Wallace, the Federal Farm Credit Administration was established by an Act of Congress. The Farm Credit Administration succeeded the Farm Board and the Stabilization Corporation with respect to the interests of these agencies in the cotton above referred to. By executive order of May 27, 1933, the management and handling of the cotton to which the government had acquired an interest, in connection with the operation of the Seed and Crop Production Loan Agencies, likewise passed to Farm Credit Administration.

The Agricultural Adjustment Act approved May 12, 1933, in connection with the Act establishing the Farm Credit Administration and the Executive Order of May 27th, authorized and directed Farm Credit Administration to reduce to possession, and acquire full legal title to, all of the cotton above referred to; pursuant to such authority Farm Credit Administration, through sundry operations which need not here be detailed, proceeded to acquire title to an aggregate of 1,649,374.9 bales of actual cotton averaging in weight 500 pounds each and to cotton futures contracts for 836,200 bales. The aggregate of cotton, including futures, so acquired by Farm Credit Administration being 2,485,574.9 bales of an average weight of 500 pounds each.



Section 3, Agricultural Adjustment Act, authorized the Secretary of Agriculture to purchase from Farm Credit Administration all of the cotton to which Farm Credit Administration should acquire title; pursuant to this authority, and after sundry negotiations, a memorandum agreement dated June 7, 1933, was entered into between the Secretary of Agriculture and the Governor, Farm Credit Administration. Under the terms of the contract referred to, it was agreed that the Secretary of Agriculture should purchase from Farm Credit Administration all of the cotton which had been, or should be, acquired by Farm Credit Administration, as above outlined, at a purchase price of 5¢ per pound, basis middling as to grade, and 7/8 of an inch as to staple, with appropriate allowance for grade, staple, condition, and location. It was agreed between the parties to the contract that at that time the prevailing market value of cotton, middling grade, 7/8 of an inch staple, was 9.50¢ per pound. To compensate Farm Credit Administration for the loss resulting from the sale of this cotton to the Secretary of Agriculture at 5¢ per pound, it was agreed between the parties that joint application would be made to the President for an allocation to Farm Credit Administration of such an amount as might be required, namely, the difference between 5¢ per pound and the market value of the cotton purchased. The allocation of these funds to be under authority of Section 220, National Industrial Recovery Act, approved June 16, 1933.

Pursuant to the contract of June 7, 1933, and in accordance with the provisions thereof, the Secretary of Agriculture purchased in 1933, during the months of July and August, 586,686.131 pounds of cotton, being the equivalent of 1,173,372.22 bales of cotton averaging 500 pounds each; in later months, when the market had advanced to ten cents per pound, the Secretary purchased an additional 238,001.338 pounds, being the equivalent of



476,002.67 bales of cotton, making an aggregate of 824,687,469 pounds or 1,649,374.9 bales of cotton averaging in weight 500 pounds each. For all of this the Secretary of Agriculture paid to Farm Credit Administration 5¢ per pound, and upon joint application of the Secretary of Agriculture and the Governor, Farm Credit Administration, the President allocated to Farm Credit Administration,  $4\frac{1}{2}$ ¢ per pound on the cotton purchased in July and August and 5¢ per pound on the cotton subsequently purchased.

Section 3, Agricultural Adjustment Act, in addition to authorizing the acquisition of actual cotton by the Secretary of Agriculture, also authorized the Secretary of Agriculture to acquire cotton futures contracts which had been substituted by sundry governmental agencies, hereinabove referred to, for actual cotton. The acquisition of these futures contracts was also provided for in the contract above referred to between the Secretary of Agriculture and the Governor, Farm Credit Administration. Accordingly, pursuant to this authority, the Secretary of Agriculture acquired from Farm Credit Administration, futures contracts for 836,200 bales of cotton, these contracts being taken over by the Secretary of Agriculture on the New York Cotton Exchange at the market quotations at the time of the acquisition of the cotton, Farm Credit Administration paying to the Secretary of Agriculture in cash the difference between the market quotation at which the futures were taken over and the agreed purchase price of 5¢ per pound and being reimbursed for the loss thus sustained by an allocation made by the President from the fund authorized by Section 220, N.I.R. Act, supra.

In the manner above outlined, the Secretary of Agriculture acquired cotton, including cotton futures, in the amount of 2,485,574.9 bales of an average weight of 500 pounds each.

In connection with and to make possible the foregoing transactions,



the President allocated, under authority of Section 220, N.I.R. Act, supra, an aggregate of \$60,000,000. The funds thus allocated, were paid from the Treasury to the account of Farm Credit Administration and disbursed or distributed as follows:-

Paid to Agricultural Adjustment Administration by Farm Credit Administration	\$19,568,243.16 *
Retained by Farm Credit Administration (Agricultural Marketing Act Re- volving Fund)	28,027,545.34 **
Seed & Crop Production Loan	11,894,267.70 ***
Seed Loan (Retained for Seed Loan settle- ments and adjustments)	500,000.00 ****
Balance credited in suspense by Farm Credit Administration unallocated	9,943.80
Total	---
	\$60,000,000.00

\* This sum represents the difference between the purchase price of 5¢ and the market price at which the Secretary took over cotton futures contracts plus a comparatively small amount paid by Farm Credit Administration to the Secretary of Agriculture in an adjustment on account of difference in grade, staple and weight of actual cotton delivered.

\*\* This sum represents 4½¢ per pound on the cotton purchased in July and August, 1933, being the difference between the purchase price of 5¢ and the market price.

\*\*\* This sum represents the difference of 5¢ per pound



on the cotton purchased subsequent to August, 1933,  
and the purchase price of 5¢ per pound paid by the  
Secretary of Agriculture.

\*\*\*\* This sum was retained by Farm Credit Administration to  
be used, if necessary, in adjusting claims propounded  
by sundry producers against the Seed and Crop Production  
agency.

In consummating the purchase of cotton from Farm Credit Administration,  
the Secretary of Agriculture borrowed from sundry New York banks, \$58,486,654.00  
being 6¢ per pound on the actual cotton acquired; from the proceeds of this  
loan, the Secretary paid to Farm Credit Administration the 5¢ per pound  
purchase price above mentioned, the difference of 1¢ per pound was applied  
first in payment to Farm Credit Administration of a premium on the cotton  
on account of the difference in grade and staple of the cotton above middling  
7/8" and the balance was covered into a special account or fund to be used  
for paying carrying charges and expenses incident to the program to February  
1, 1934. After February 1, 1934, carrying charges become a charge against  
the cotton so that carrying charges paid after that date are paid by the  
Secretary of Agriculture from available funds but are debited against the  
cotton and are to be repaid when and as the cotton is marketed.

#### 1933 "Plow-up" Program - Cotton Options

In connection with the 1933 cotton acreage reduction program usually  
referred to as the "Plow-up Program", it was proposed by the Secretary of  
Agriculture to pay to cooperating producers, rentals upon the land taken out  
of cultivation. The producer was given the right to elect either of two  
plans of rental payment, (a) a straight, fixed cash rental or, (b) a fixed  
cash rental plus an option giving the producer the right to purchase from



the Secretary of Agriculture, cotton at 6¢ per pound to an amount equal to the quantity of cotton which it was estimated the producer would otherwise have produced on the land taken out of production. 1,031,533 producers participated in this program and rented to the Secretary of Agriculture 10,478,749 acres. Of these, 457,299 producers renting 4,260,142 acres, elected to take the "all cash" settlement and were paid an average rental of \$12.98 per acre; 575,312 of these producers elected the "cash and option" method and rented to the Secretary 6,218,607 acres at an average of \$9.25 per acre and took options on 2,447,474 bales of cotton at 6¢ per pound. Those producers taking the "cash and option" settlement received in cash \$3.73 per acre less than would have been paid them had they taken the "all cash" settlement, thus effecting a saving in cash rental of \$23,195,404.11, which should be credited against the cost to the Government of the cotton operation.

The option contracts issued in connection with the 1933 production control program, were issued under authority of Sections 6 and 7 of the Agricultural Adjustment Act, supra, as amended by Section 221 of the National Industrial Recovery Act, Public 67, 48 Stat. 210; 15 U.S.C. Art. 607.

The option contracts were prepared and mailed out to producers entitled thereto, beginning early in December, 1933. In an effort to prevent the "dumping" of the enormous quantity of cotton, covered by these options, upon the market at a time when there was in existence a large surplus of American cotton and when the Department of Agriculture was engaged in an effort to improve the price of cotton, and for the purpose of putting the holders of these options upon a parity with producers holding cotton from the crop of 1933, it was decided to make available to the Pool members the 10¢ loss at that time available to producers generally. Accordingly,



simultaneously with the issuance of the options, the option holders were advised that they might at their election, adopt either of three methods of dealing with these options, namely, (a) the option holder might exercise the option at any time up to May 1, 1934 by demanding the sale of the cotton represented thereby and the payment to him of the proceeds of the sale after deducting 6¢ per pound to cover the option purchase price; (b) he might make application to have the life of his option extended from May 1, 1934 to May 1, 1935 by agreeing to pay carrying charges on the cotton after May 1, 1934. In this event, he would thereafter be free to exercise the option as provided in (a) or in (c) or, (c) he might exercise the option by authorizing the Secretary of Agriculture to establish a Cotton Pool to be under the control of a Manager, Cotton Pool, who, in turn, was to act under the direction of the Secretary of Agriculture, the Secretary to deliver the cotton covered by the options so exercised to the Pool, the Secretary retaining a lien on this cotton for the purchase price of 6¢ per pound. The document prepared for use of those option holders desiring to adopt this method, authorized the Pool Manager to borrow from Commodity Credit Corporation 4¢ per pound to be advanced as an initial or first distribution to the option holders, and also provided that the Manager, Cotton Pool should issue in return for the surrender of the option, a Participation Trust Certificate evidencing the option holder's interest or equity in the Pool cotton subject to the Secretary's lien of 6¢ per pound and the lien of Commodity Credit Corporation for 4¢ per pound.

Between December 1, 1933 and December 15, 1934 an aggregate of 129,670 option holders holding options against 478,919 bales had elected methods (a) and/or (b), and demanded the sale of the cotton covered by their respective options. In compliance with these demands, the Secretary sold



during the interim stated 478,919 bales of cotton or cotton futures at an average price of approximately 11.25¢ per pound. From this was deducted 6¢ per pound and the balance, amounting in the aggregate to \$12,132,178.52 was paid to the option holders. During the same period of time, 443,244 option holders, holding options against 1,950,284 bales, elected to exercise their options by method (c), and surrendered their options in return for a cash advance and Participation Trust Certificates as described below. This left 1,320 option holders, holding options against 18,271 bales, who had either selected method (b), and had their options extended to May, 1935, and had not subsequently exercised the extended option by either method (a) or (c), and whose option was therefore now outstanding, or who had permitted their options to lapse through negligence.

#### Establishment of Cotton Pool

Under date of January 8, 1934, the Secretary of Agriculture, by an appropriate order, established the Cotton Pool pursuant to authority of option holders who had exercised a document known as A.A.A. Cotton Form C-5C, Exercise of Cotton Option and Pool Agreement. To and including December 15, 1934, 443,244 option holders selected method (c), executed the forms C-5C, surrendered their options, in return for which the Secretary of Agriculture delivered to the Pool 1,950,284 bales of cotton, averaging 500 pounds in weight, middling in grade and 7/8" in staple.

#### 4¢ Distribution

Against the Pool cotton, the Manager borrowed from Commodity Credit Corporation 4¢ per pound, \$20.00 per bale or an aggregate of \$38,991,041.76, which amount was distributed among the option holders selecting this method of settlement. At the same time, the Manager, Cotton Pool, issued Participation Trust Certificates evidencing the equity of the holder in the cotton delivered by the Secretary to the Pool.



Refinancing

Subsequently under date of July 31, 1934, the Secretary of Agriculture borrowed from sundry commercial banks, 10¢ per pound on the pool cotton or an aggregate of \$97,764,697.00. With the proceeds of the funds thus borrowed the Secretary paid off a former loan of 6¢ per pound hereinabove referred to, and paid off the Commodity Credit Corporation loan of 4¢ per pound.

Second Pool Distribution of 2¢ and Purchase of Certificates

Under date of August 24, 1934, with the approval of the Secretary of Agriculture, the Manager, Cotton Pool, announced to the holders of Pool Participation Trust Certificates that the holders of these Certificates might at their election, offer to sell their Certificates to the Manager, Cotton Pool, at the prevailing market price upon any designated date subsequent to the date of the offer, that the Manager, Cotton Pool, would exercise his discretion in the matter and would, in accordance with that discretion, purchase the Certificates so long as it was possible for him to sell a quantity of cotton equal to that covered by the Certificates purchased, without seriously affecting general marketing conditions. In addition to this privilege, the Manager, Cotton Pool, also at the same time, announced that arrangements had been made for him, the Manager, to borrow an additional 2¢ per pound for the purpose of making a 2-cent distribution to Certificate holders, either or both of these privileges being made available, that is to say, the holder of a Certificate may, by exercising a form known as A.A.A. Cotton Form C-5F, offer his Certificate for sale to the Pool Manager, designating in the offer the date on which the price of the Certificate should be fixed. If this offer is accepted the Manager fixes the price in accordance with the authorization on the form, deducts from the price thus fixed 10¢ per pound to cover the lien of the Secretary, and deducts 30¢ per bale per month from February 1,



1934, to the first day of the month on which the price is fixed to cover carrying charges and remits the balance to the holder of the Certificate, so selling and surrendering his Certificate, or at his election the Certificate holder may execute a document on a form known as A.A.A. Cotton Form C-5H thereby authorizing the Manager, Cotton Pool, to borrow 2¢ per pound for a second distribution. In this event, the Manager, Cotton Pool pledges the equity in the cotton to Commodity Credit Corporation, borrows 2¢ per pound or \$10.00 per bale, deducts therefrom 30¢ per month for the months beginning with February 1, 1934 and ending with September 30, 1934, a total of \$2.40 per bale to cover carrying charges, and pays the balance of \$7.60 per bale to the Certificate holder, at the same time cancelling the original Certificate and issuing a new Certificate evidencing the holder's equity in the cotton, subject to a lien of 12¢ per pound and subject to carrying charges to accrue at the rate of 30¢ per bale per month from and after October 1, 1934. Certificate holders were also advised that if they elected to obtain the 2¢ advance by the execution of Form C-5H, they could thereafter exercise the privilege of selling the new Certificate to the Manager, Cotton Pool, in the same manner as was originally provided, except that upon the sale there would be deducted 12¢ per pound and carrying charges beginning October 1, 1934.

Purchase of Certificates

Up to and including December 15, 1934 the Manager, Cotton Pool, accepted offers of Certificate holders to sell their Certificates for an aggregate of 187,857 bales and, against these offers, the Manager had sold up to that date, a like number of bales of cotton.

Cotton Account of Secretary of Agriculture

The status of the cotton account at the close of business on Saturday, December 15, 1934, is as follows:-



Cotton acquired from Farm Credit Administration	- 2,485,571 B/C	Bales of cotton delivered by Secretary to Pool	- 1,950,354 B/C
Increase because of weight in replacing futures with spots	- 149 B/C	Sold against exercise of options	- 478,900 B/C
		Sold against surplus	- 7,000 B/C
		Sold by W. M. Carrard & A.C.C.A. thru December 15th	- 17,408 B/C
		* Actual cotton held by Secretary of Agriculture	- 4,858 B/C
		* Cotton futures contracts held by Secretary of Agriculture	- 27,200 B/C

TOTAL ----- 2,485,720 B/C

TOTAL ----- 2,485,720 B/C

\* 2,398 outstanding option contracts (this does not include options which may hereafter be approved and issued through claims) for 18,201 B/C.

Excess, held in reserve against future contingencies, 13,787 B/C.

A few of the above options are being carried on account of extensions from May 1, 1934, some have simply not been presented by the holders and a few of them have not been issued by the Department because of sundry complications and/or controversies.

#### Pool Cotton Account

The status of the Po<sup>n</sup> at the close of business, Saturday, December 15, 1934, is as follows:-

Cotton received from Secretary of Agriculture	- 1,950,354 B/C	Sold against Certificates surrendered	- 187,857 B/C
Long futures not allocated against Certificates	- 19,300 B/C	On hand actual cotton	- *1,756,397 B/C
		On hand futures	- ** 25,400 B/C

TOTAL ----- 1,969,654 B/C

TOTAL ----- 1,969,654 B/C

\* This figure includes 36,900 bales sold but not fixed against certificates on this date.

\*\*This figure includes 19,300 bales long futures.



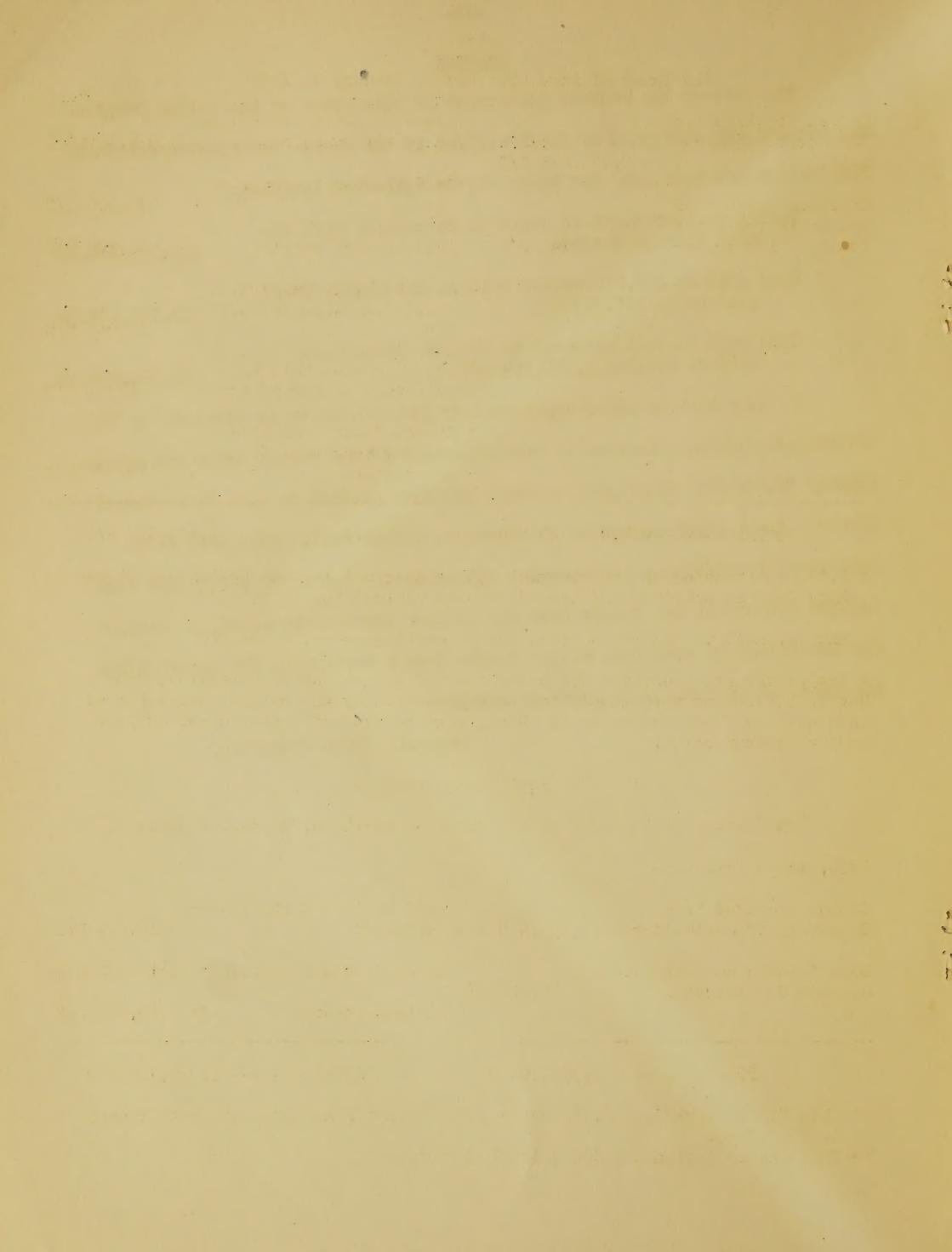
Summary

The cost to the Federal Government of this phase of the cotton program was \$60,000,000 allocated by the President in the manner hereinabove outlined. This cotton has been made the basis of the following payments:

Saving to Government in rents in connection with the 1933 Plow-up Program	-	\$23,195,404.11
Cash paid to 129,670 option holders who cashed their options on 478,919 B/C	-	12,132,178.52
Cash paid (4-cent advance) to 443,244 Certificate holders pooling 1,950,354 B/C	-	38,996,434.69

To this will be added approximately \$17,000,000 to be advanced to those Certificate holders electing to take advantage of the 2-cent offer and approximately \$2,500,000 to be paid to those who have elected to sell their Certificates on the present market to the Manager, Cotton Pool. This will leave holders of Certificates representing approximately 1,700,000 B/C to get such further advance as may result from any further increase in price, or subject the Government to such loss as may result from a decline in the market below the price of 12 cents plus carrying charges.

(Signed) Oscar Johnston.



Supplemental Page upto close, January 7, 1935

Cotton acquired from Farm Credit Administration	- 2,485,571 B/C	Bales of cotton delivered by Secretary to Pool	- 1,950,404 B/C
Increase because of weight in replacing futures with spots	- 149 B/C	Sold against exercise of options	- 479,500 B/C
		Sold against surplus	- 19,100 B/C
		Sold by W. M. Garrard & A.C.C.A. thru January 7th.	- 17,445 B/C
		* Actual cotton held by Secretary of Agriculture	- 4,771 B/C
		* Cotton Futures contracts held by Secretary of Agriculture	- 14,500 B/C
TOTAL -----	2,485,720 B/C	TOTAL -----	2,485,720 B/C

\* 2,326 outstanding option contracts (this does not include options which may hereafter be approved and issued through claims) for 17,530 B/C

Excess, held in reserve against future contingencies, 1,741 B/C

A few of the above options are being carried on account of extensions from May 1, 1934, some have simply not been presented by the holders and a few of them have not been issued by the Department because of sundry complications and/or controversies.

#### Pool Cotton Account

The status of the Pool at the close of business, Monday, January 7, 1935, is as follows:-

Cotton received from Secretary of Agriculture	- 1,950,404 B/C	Sold against Certificates surrendered	- 316,872 B/C
Long futures not allocated against Certificates	- 5,300 B/C	On hand actual cotton	-* 1,617,922 B/C
		On hand futures	-** 20,900 B/C
TOTAL -----	1,955,704 B/C	TOTAL -----	1,955,704 B/C

\* This figure includes 23,642 bales sold but not fixed against certificates on this date.

\*\* This figure includes 5,300 bales long futures.

